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FOREIGN SERVICE DESPATCH

FROM : AmEmbassy Tokyo

~~1140~~ NO.

TO : THE DEPARTMENT OF STATE, WASHINGTON.

June 14, 1956

REF : Dept. of Commerce Airmail Letter (undated, but received at the Embassy on August 7, 1955)

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	Com-12	Rep-2 E-4 Ali6 FE4 ICA70 L-2
	RECD 6/18	INFO OTHER Cin6 Army-5 Navy-3 Jus-1

SUBJECT: Speidel Watchband Patent Infringement

The reference communication referred to problems encountered by the Speidel Company, manufacturer of watchbands, in its effort to license manufacture of its patented products in Japan. The Embassy was asked to assist in the case, and to furnish comments and recommendations regarding aspects of the case which might affect the United States-Japan Treaty of Friendship, Commerce and Navigation. It is regretted that a full report on the case has not been rendered earlier. The Department of Commerce is assured, however, that Embassy officers have worked diligently on the matter and knew that the American firm was kept informed of developments by its legal representatives in Japan. On April 13, 1956, the Japanese Government finally approved licensing agreements between Speidel and three Japanese companies. Enclosed is a copy of a letter dated April 18, 1956 from the American firm's legal representative in Japan referring to the Embassy's assistance in the case. There follows a review of the main developments and issues. These provide an interesting case study of the workings of the Japanese bureaucracy. The report is rendered under the following sub-headings:

Background
Application Under Foreign Investment Law
Application Under Foreign Exchange Law
Opposition to Approval
FCN Treaty Aspects of the Case
Foreign Exchange Control Law Aspects of the Case

DEPARTMENT OF STATE L/T JUL 13 1956 TREATY BRANCH OFFICE OF THE LEGAL ADVISER

Background

In 1953, the Speidel Corporation discovered that Japanese firms were infringing a watchband patent. It is important that the patent in question was duly registered in Japan and was what the company calls an "idea" rather than "design" patent. Pursuant to the desire of the American company to prosecute the Japanese companies Mr. James S. ADACHI, an American attorney practicing in Tokyo, was retained.

After investigation, Mr. Adachi recommended that the Japanese companies be licensed to manufacture the watchband rather than prosecuted. The recommendation was based on Mr. Adachi's belief that patent infringements would continue even if a favorable judgment were received, and that Japanese watchband producers could

and would

REPeters/gm

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and would, more ably and more diligently than other agents, prevent unauthorized manufacture of a watchband in which they would have a proprietary interest. The Embassy believes that Mr. Adachi's recommendations in this respect were well conceived.

Application Under Foreign Investment Law

Apparently with reluctance, the Speidel Corporation accepted Mr. Adachi's recommendations and instructed that he make appropriate arrangements for licensing of three Japanese companies. Accordingly, an application was entered pursuant to the Foreign Investment Law. (One probable reason for reluctance to seek licensing was the good court case the company would have had. Even Japanese officials appear to accept that any adaptation of the "idea" involved falls within the purview of the registered patent. Additionally, in the tentative licensing agreements, an essential part of the two applications which followed, the Japanese companies tacitly acknowledged past infringements by agreeing to retroactive payment of royalties.)

In due course, the application was rejected by the Foreign Investment Council on the ground that the techniques involved failed to meet the criteria established under the Foreign Investment Law. Specifically, the Council found that the products in question--watchbands--were non-essential, that their manufacture in Japan would not materially contribute to the advancement of domestic industry (the number of watchband manufacturers is considered excessive) and would not materially increase Japan's foreign exchange earnings. Since, to protect its production elsewhere, the American company desired to limit rather than encourage exports from Japan, it is difficult to contest this finding. The fact that these criteria are inconsistent with the United States-Japan FCN Treaty is, of course, a different consideration and is discussed below.

According to Mr. Adachi, Japanese Government officials, in rejecting the application for foreign exchange remittances were adhering to principle. They recognized that the contemplated remittances were small (only about $1,200 per year) and that the fundamental objective of the American firm was to stop patent infringements rather than to profit by investment in Japan. Under the circumstances, the Embassy was informed, these officials suggested that the Government would probably look favorably upon a licensing agreement under which royalties would be paid in yen rather than foreign exchange.

Application Under the Foreign Exchange Law

Although apparently still preferring to prosecute, the American company agreed to accept royalty payments in yen. Here, however, a problem involving the Foreign Exchange Law was posed. Article 27 of that law requires that the Finance Ministry approve all payments (even in yen) between exchange residents 1/ and exchange non-residents. Since the American firm neither had nor contemplated

1/ The law defines exchange residents as "all natural persons who have their permanent place of abode or who customarily live in Japan and also juridical persons. . . having their seat or place of business in Japan. The branches in Japan . . . of exchange non-residents are considered to be exchange residents . . ."

establishment of a branch office in Japan, an application for Finance Ministry approval was necessary. The real issues in the case involved this application. Japanese officials unnecessarily delayed approval, for reasons outside the purview of the law, and probably never would have approved it except for persistent Embassy intervention. As discussed below, however, it is difficult to take issue with the law itself, even in its application to this case.

Opposition to Approval

The application was referred first to the Ministry of International Trade and Industry (MITI) and then to the Scientific and Technical Administration Commission (STAC), an appendage of the Prime Minister's office. It is not easy to trace the applicable regulations which require consideration of the application by MITI and STAC. (Mr. Adachi's comment in this respect is pertinent. Little purpose is served, he finds from experience, in tracing these. They are detailed, intricate, bureaucratic and subject to frequent changes in substance and interpretation. It is, therefore, simpler, less time-consuming and infinitely more satisfactory to talk directly with Government agencies as each problem arises and attempt to meet the requirements posed at that time by the official concerned.) The Embassy is satisfied that the requirements are established by statute and regulation. In general, the MITI review is to determine the effect on Japanese industry and commerce of the proposed payments, and the STAC review is for the purpose of evaluating the techniques and royalties in terms of Japan's needs. Interestingly, the Finance Ministry's approval came within 10 days of the approval of MITI and STAC and seemed to be purely a matter of form.

The Embassy usually received a sympathetic, if sometimes badly informed, reaction from ranking officials of the agencies concerned. The opposite was true of its discussions with lower-level bureaucrats in MITI and STAC. It was noted that the higher officials depended heavily upon those at a lower level but that the attitudes and actions of the latter often seemed to escape the superior officers. Obstacles to approval were always known to the higher officials, but they were seldom well informed of the reasons for delay or of the obvious merits of the Speidel case. It was also found that the lower level officials were easily influenced by industry pressures and that they themselves often had (from industry sources) prejudiced and distorted impressions of the case. The Embassy, therefore, exerted persistent pressure upon the lower-level officials. In his frequent approaches to them, the reporting officer repeatedly stressed the injustice being done Speidel for little reason, and the adverse effects upon Japan should a negative decision be reached.

It seems clear that the companies which were to be (and were) licensed as well as other watchband manufacturers--each group for different reasons--exerted pressure against approval of the application. The companies to be licensed wanted the royalties to be reduced, and the other makers insisted that a greater number of companies be licensed. Japanese Government officials, especially at the lower levels, tenaciously held to both industry desires and were prevailed upon by the Embassy and the American firm only with the greatest difficulty.

The position

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The position of Speidel was: (2) the royalty for Japan was the same as for licensed manufacturers in Canada and West Germany; reduction for Japan would inspire demands for reduction by licensees in other countries; the company could not consider a reduction because of the very small sum involved in Japanese manufactures; the sole purpose of the licensing was to prevent patent infringements in Japan; (2) to control quality, the company preferred to license a limited number of Japanese firms, and was stretching the point in licensing three; (3) rather than accede to either demand, the company preferred to take to court what was obviously a clear-cut case of patent infringement. In pressing this theme, the Embassy also emphasized the adverse effect on Japan's international trade reputation of a court case of this kind, and the very small annual outlay involved. Happily, in due course, the Japanese officials recognized that their position of opposition was untenable, and approval was given. The delays involved were, obviously, unreasonable.

FCN Treaty Aspects of the Case

It could be argued that the denial of the foreign exchange remittance application was a violation of paragraphs 2, 3 and 4 of Article XII of the FCN Treaty (unwarranted exchange restrictions). This, however, involves a determination as to whether Japan needs "to protect" its present foreign exchange reserves. (Although these are now quite large--nominally about $1.5 billion, it remains for the International Monetary Fund to determine whether continuation of these restrictions is warranted. Paragraph 3 of Article XXI authorizes such restrictions as are permitted by GATT, and GATT authorizes exchange restrictions so long as these are tolerated by the IMF.) Furthermore, the Speidel case was not a particularly good case in this respect when compared with others in which investment would create increased foreign exchange earnings, but which have been denied or upon which Japan has refused to act. (The investment application of the Singer Sewing Machine Company is a case in point.) The Embassy, therefore, avoided raising the FCN Treaty issue directly in the Speidel case. To have done so might have obliged the Japanese to make a final unfavorable decision merely to maintain a principle on which it has denied other applications. The Speidel case was pressed, instead, entirely on its own excellent merits. It is perhaps noteworthy that it was finally approved despite strong objections from domestic manufacturers. Industry protests are a major factor in Japan's refusal to act on the Singer application.

Had the second Speidel application been denied there would, of course, have been grounds for protest under Article X of the treaty (protection of patents and industrial property rights).

Inherently, both the Foreign Investment Law and the Foreign Exchange Law are bound to affect foreigners more than Japanese. They apply equally, however, to both. For this reason, although certain provisions of the laws make possible violations of the treaty, it would be difficult to contend that non-discriminatory decisions made pursuant to them involve a denial of national treatment. The argument would appear to be with the laws themselves. As is known, the United States has had little success in its efforts to have Japan resolve conflicts between its domestic legislation and the FCN Treaty.

Foreign Exchange

Foreign Exchange Control Law Aspects of the Case

In the absence of free convertibility of the yen, it would seem unrealistic to take issue with the requirement that the Finance Ministry approve all payments between exchange residents and exchange non-residents. This is an important pillar of Japan's controls against undesirable exchange transactions. Although the law makes possible violations of the FCN Treaty, it is not intended to do so and does not require such results. The Embassy believes, therefore, that rather than seek changes which might weaken the controls the proper course for the United States is to continue to insist that decisions under the law are fair and equitable for American nationals and companies.

It may be noted in passing that acceptance of yen royalties by Speidel does not preclude eventual conversion and remittance. Applications for remittance may be made under applicable provisions of the Foreign Exchange Control Law. Approval depends upon the status of Japan's foreign exchange reserves. The Foreign Investment Law differs from the Foreign Exchange Control Law in this respect in that remittances are guaranteed for investments authorized under the investment law.

Summary

The main quarrels of the United States in this case would appear to be with the undue influence exerted by lower-level bureaucrats, the tendency of these to respond to the pressures of Japanese companies despite the merits of the Speidel case, and the slow movement, sometimes seemingly deliberate, of Japanese bureaucratic procedures as they affected this matter.

For the Ambassador:

Frank A. Waring
Counselor of Embassy
for Economic Affairs

Enclosure:

1. Letter from Mr. Adachi

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From ____

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Encl. No. 2
Desp. No. 1143
From AmEmbassy Tokyo

COPY

JAMES S. ADACHI
Law Office
Hotel Tokyo Building
Tokyo

Central Tokyo
PO Box 96

Cable Address JAMAD TOKYO
Telephones (28)5389,
(28)9015

COPY

April 18, 1956

Mr. Richard D. Peters
Economic Section
Embassy of the United States of America
Tokyo

Subject: Speidel Corporation

Dear Mr. Peters:

It is with great pleasure that I am able to report to you that the patent licensing agreements between Speidel Corporation and the three Japanese licensees, Rikitaro Itoh, Isao Yamada and Okamura Kogyo Kabushiki Kaisha, were approved by the Japanese Government on April 13, 1956. This was a very difficult problem and I believe that it was largely due to your efforts in behalf of Speidel Corporation that these approvals were received.

I would like to offer you my personal gratitude and appreciation for your co-operation and your wise and well-directed efforst in behalf of Speidel Corporation.

Very sincerely yours,

/S/ James S. Adachi

James S. Adachi

JSA/s

cc. Speidel Corporation

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